Session 5 (Day 3 Morning)
Maximizing the Value of Local Government Assets and Incentive Programs

Session Overview

The social and political pressure on local government officials to attract business can lead to rash, often detrimental decisions. This session explores critical factors that local officials should consider when developing an incentive program and the subsequent cost and impact of such a program. The presentation described here may be followed by short case studies on two topics: (1) land development, which should show how land use and infrastructure planning increases the attractiveness of land; and (2) infrastructure development, which should offer examples of how local communities maximize the value of their assets. Practitioners who can offer insights into the cases are the best presenters for these case studies.

Session Objectives

- To demonstrate how local governments, through policies, and programs, strategically use their assets and power to improve their competitive positions.
- To identify benefits and liabilities of various financial incentive programs—including tax incentives, public-private partnerships, and the use or sale of public property—from the viewpoint of an existing business, a prospective business, and the local government.
- To illustrate what factors should be considered in calculating the net benefit of various incentives offered by a local government.
- To determine the most effective use of community assets and financial incentive programs.
- To define the expected outcome of a local government asset and incentive strategy.

Trainer's Notes

2 hours Presentation: **Maximizing the Value of Local Government Assets and Incentive Programs**

This presentation is based on the talking points and overheads that follow the presentation notes. You will need to refer to these to prepare this presentation.

5 min

1. Begin by welcoming the group and reviewing what took place at yesterday's session. Ask participants if they have any questions about what they learned yesterday.

10 min

2. Introduce the session by explaining that you will address how local governments can strategically use financial incentives and local assets to attract new business. The first step is to gain a better understanding of firms, the industrial sector, and markets. Explain that this session will focus on the local government's role in making the community attractive to business, including offering appropriate incentive programs. Follow the first section of the talking points on "Understanding Comparative Markets" to introduce the topic. (Avoid giving away the answers in Step 3 below, which is designed to help participants think independently about the issue.)

10 min

3. Ask participants to put themselves in the place of a business owner who is considering relocating. What factors might attract him or her to your community? What are your community's strategic opportunities? List responses on the flip chart. Answers might include:

   - Access to a well-qualified or inexpensive labor force
   - Access to major roadways or transportation routes
   - Good quality of life
   - Cheap land
   - Accessible land
   - Reasonable tax rates and business regulations
   - Access to suppliers or other needed services
   - Reliable and well maintained public infrastructure.

10 min	4. When participants have generated a list, ask which of the aspects on the flip chart can be influenced by the local government. What other groups within the community might be able to influence the factors listed?
45 min	5. Explain that it is the role of the public sector to facilitate and promote the creation of jobs and wealth and to ensure that this is done in a way that serves both the short- and long-term interests of the community, not just one company, group of people within the community, or sector of the economy. Continue by introducing the concept of incentives, explaining what incentives are to do. Follow the overheads and the "Principles for Developing an Incentive Strategy" section of the talking points. Include examples from the country in which the training is conducted, wherever possible.
30 min	6. As you turn attention to the benefits of business attraction, ask, "what advantages does the location of a new business bring to the community?" List responses on the flip chart. After participants have generated a list, add any others from the "Economic Impact" section of the talking points. Then, continue to drive home the point by focusing on one or more specific examples to illustrate how a dollar spent can reap many dollars in future rewards.
10 min	7. Conclude with a summary of the discussion, focusing particular attention on the various incentives that a local government can use to attract new business and encourage the expansion of existing businesses. Make sure to reiterate the following key concepts:

- Local governments should not be afraid to negotiate financial incentive packages with private companies.
- Financial incentive packages should be implemented incrementally to ensure that the company keeps its investment commitments to the community.
- A menu of financial incentives is required to enable a customized program to be developed for companies in various business categories (primary, secondary, and tertiary) and in different stages of development.
- Other industries in the community, such as an electric utility company, may offer financial incentives.
- The long- and short-term net benefit of a financial incentive program or investment in community assets should be calculated.

1½ hours Group Assignment: Applying the Principles: Local Government Assets and Incentive Programs

5 min 1. Break participants six small groups of equal size. (Consider having random group assignments to allow people to work with different participants than previously.)

5 min 2. Distribute the handout, “Maximizing the Benefit of Community Assets and Financial Incentive Programs.” Introduce the activity by explaining that local governments can use different types of strategies to generate economic development opportunities in a community. The three types involved in this exercise are (1) expansion of manufacturing companies, (2) growth of small and medium-sized commercial enterprises, and (3) new business start-ups. Assign each group one of these three focuses, so that two groups are working on each topic. Ask participants to review the instructions before beginning. Allow them a few minutes to read the handout, and then ask if there are any questions. Explain that participants will have 30 minutes to develop a presentation that addresses the five issues at the bottom of the handout. Distribute newsprint and markers to each group so that the groups can take notes for the presentation.

30 min 3. Allow them 30 minutes to prepare their presentations.

40 min 4. Reconvene the group and ask a spokesperson from each group to report on its discussion. After each report, ask questions about who has the authority to implement the strategy; which types of market (primary, secondary, or tertiary) the project supports and how it supports each; how the community would benefit from the strategy; what sanctions the local government can exercise if a firm does not keep its commitments; and other questions relative to the five principles discussed in Session 1 and the presentation in this session.

10 min 5. When all groups have finished, ask them what they learned through this exercise. Their responses should include the elements of a win-win incentive package, how to determine the risk and develop protective clauses, and the need to understand the real expectations of industrial firms and that one can negotiate the terms of the incentive package. Consider using a real-life example of each of the three business types to illustrate key points, either in a presentation or background reading distributed at the end of this exercise. *(You will need more time if you add real examples.)*

Talking Points: **Strategic Use of Local Resources for Economic Development**

Understanding Comparative Markets

Economic development strategies should reflect the existing local economy and institutional resources. This means focusing on all sectors of the economy and all types of industry, including:

- private, nongovernmental, and local government sectors
- primary, secondary, and tertiary industries of all types and stages.

The business categories are:

- **Primary:** Firms that produce a final product for consumption outside the community (e.g., automobiles, household goods, computer hardware)
- **Secondary:** Firms that provide parts or services directly to primary industries (e.g., automobile parts plant, accounting firms, design firms, financial services firms)
- **Tertiary:** Organizations that provide retail and personal services (e.g., clothing stores, golf courses, hair salons).

The profit/product life cycles or stages of business development are:

1. Start-up
2. Expansion
3. Maintenance
4. Decline
5. Death.

Cities must determine what the mix of industries is and where the majority of the most competitive industries are in the profit/product life cycle. Incentive programs can address all the above firms, as long as the planning process takes into account where the community's strongest assets lie.

Government and nongovernmental organizations may maximize the value of their assets through:

- Laws and regulations
- Training and education
- Political and community leadership

- Incentives

- Infrastructure.

Principles for Developing an Incentive Strategy

Incentives should increase the comparative advantages of a region without interfering with market forces that dictate supply and demand.

Simple principles to follow when developing a strategy for the use of community resources are:

1. Always negotiate the incentive package (both the kind and the amount of incentives):

   - Businesses do their own research and know the region's advantages and limitations; they know what they want rectified.

   - Regions should operate with a fixed menu of elements and a policy to extract maximum advantage in negotiating incentives.

2. Combine multiple sources and types of incentives. Use both public and private resources.

3. Stage the majority of the incentive package elements over time periods that coincide with the flow of benefits to the region.

4. Include "clawback" provisions so that the community is able to retrieve its resources if the business does not meet its obligations.

5. Focus incentives on public or mixed infrastructure and services.

6. Consider opportunity costs.

Reserve the use of incentives only for firms that:

- Agree to make high-impact investments in support of strategic opportunities

- Would not otherwise locate in the community (e.g., in needy locations that have historically been unattractive to private investors)

- Guarantee exceptional performance where they operate.

Possible incentives include new roads, bridges, sewer and water lines, or railway links; office space; land for a communications facility; employee training; or airport improvements. These improvements may be financed by the local or the national government. Other entities (e.g., a utility company or financial institution) may also be able to assist in projects, particularly if they benefit.

Other examples include:

- Leasing land at a reasonably low cost, with a purchasing option
- Changing tax laws to allow a company to pay for essential services (such as water and sewer service) with some of its property taxes
- Including an income tax credit for employees
- Providing job training in technical skills, leadership, team building, management techniques, etc., or providing tools, manuals, or classroom facilities
- Supporting the company's efforts to hire employees (e.g., advertising and screening initiatives_
- Providing rate structures for utilities owned by the local government that are advantageous to business (e.g., a standard industrial power rate and an off-peak rate).

Economic Impact

A decision of a major company to locate a manufacturing facility can have implications for the competitiveness of the region's economic base and provide substantial opportunities for diverse economic growth.

- Job creation
- Increase in tax base (income, sales, and property taxes)
- Wealth created in both manufacturing and service sectors of the economy
- Diversification of the region's economy
- Increased national and international competitiveness
- Greater resistance to business cycles and loss of investment
- Higher wages, better working conditions, and improved career advantages for citizens
- Additional future opportunities for economic growth
- Increased level of national and international visibility.

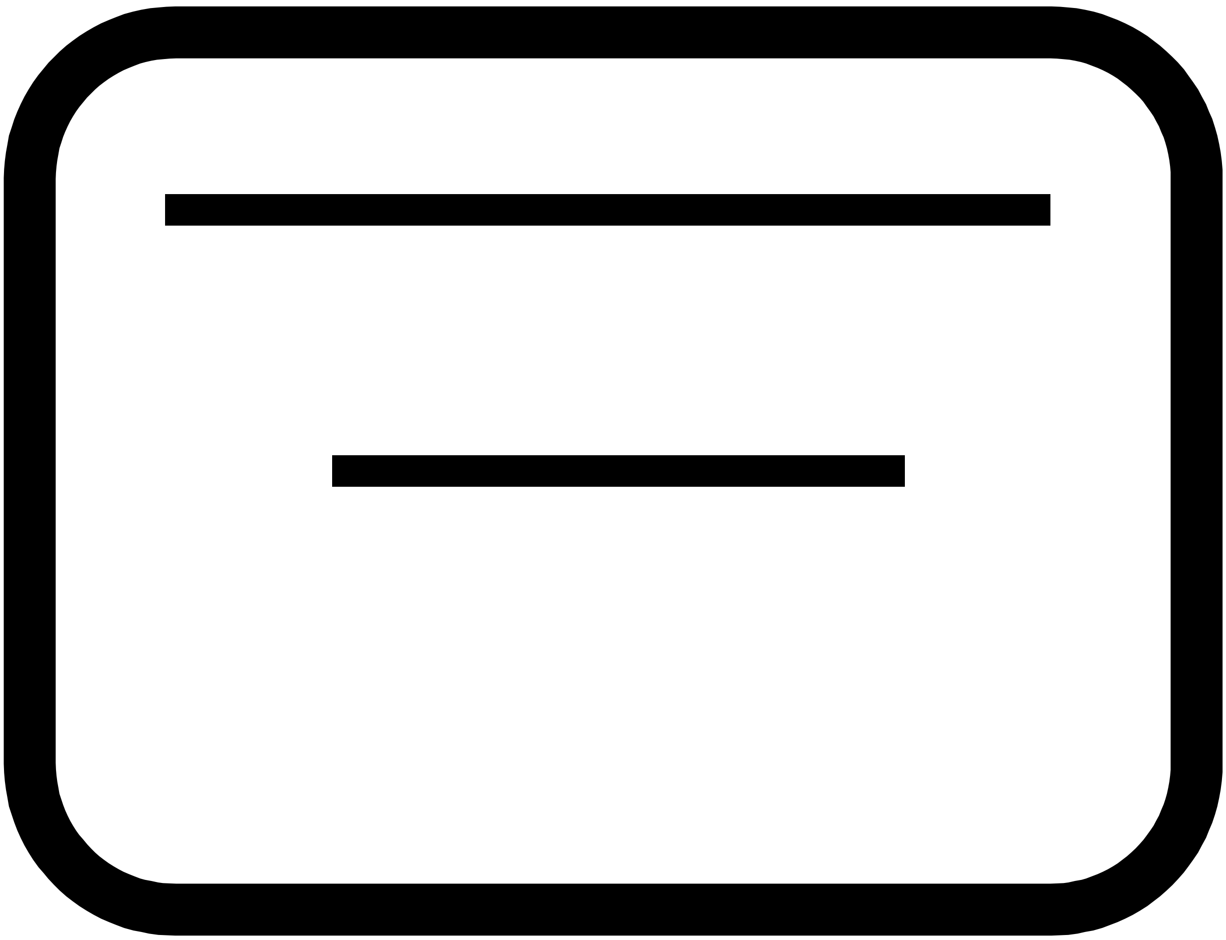
In addition to direct benefits, any economic impact analysis of a new business location must include the "ripple" or multiplier effect. For example, a manufacturing facility will cause new suppliers to locate in the area. The analysis must also take into consideration the indirect impact of secondary economic activity in the service sector, as corporate and employee dollars are cycled through the local economy. These new dollars pay for business and professional services, construction, retail and wholesale trade, and other local products and services.

Summary of Incentives

Incentives must be authorized by legislation and uniformly applied to benefit all companies that meet the qualifications of the specific incentive, whether these are companies that are new to the area or part of the existing business base. Most incentives should be performance based. They may include:

- Land acquisition or assembly and favorable credit terms
- Infrastructure development
- Customized job training
- Tax incentives.

Overheads



Economic Policy Foundations First, Business Incentives Later

Ensure that basic policy foundations are present or being put in place first:

- Adequately prepared, motivated workforce
- Appropriate levels and types of infrastructure
- Fair and equitable tax system and practices
- Reasonable, enforceable business regulations

Strategically Deploy All Tactical Incentives

- Embed incentive decision-support methods within strategic plan and policy
- Seize best strategic opportunities afforded by high-impact sectors
- Design total incentive strategy around national funds for special projects
- Ensure greatest gains by tactical targeting of sectors and locations
- Understand all categories of incentives and how each works
- Conserve incentive funds and preserve fairness through public-private cost-sharing
- Adopt task force technical and policy recommendations, guidelines, and methods

Possible Strategic Opportunities

- Globally competitive economy
- High generation rate and wide diffusion of commercial innovations
- Increased supplier base and stronger multiplier impacts
- Higher wages, better working conditions, improved career advantages
- Less environmental stress, reduced waste flow, cleaner workplaces
- Greater resistance to business cycles and loss of investment
- More evenly balanced pattern of rural and urban job locations

Firms *May* Merit Incentives if Strategically Useful

Reserve use of incentives only for firms that:

- Agree to make high-impact investments in support of strategic opportunities
- Would not otherwise locate in the community (e.g., in needy locations historically unattractive to private investors)
- Guarantee exceptional performance where they operate

What Are Business Incentives Anyway?

- Incentives should be extended in return for tangible and useful public purposes
- Incentives should alter firm's decisions in ways that benefit the local economy
- Indiscriminate use (e.g., regional quotas) dilutes value and effectiveness of incentives
- Business incentives should provide economic benefits to firms in multiple ways
- Incentives provide valuable benefits to firms through very different mechanisms:
  - They increase the value of shareholder assets (direct subsidies)
  - They supplement or improve private capital with local infrastructure and amenities (public services or facilities)
  - They raise the efficiency of regional input factors available (productivity of land, labor, capital, technology)
  - They expand statewide systems and improve the effectiveness of core infrastructure (telecommunications, transportation facilities, etc.)

Valuing the Costs of Strategic Benefits

All incentives should be considered according to joint public-private investment decision criteria.

The appropriate amount of total costs borne and the public share of these costs depend upon the strategic value of the:

- Potential impact of the industry type
- Exceptional performance expected
- Location firm agrees to occupy
- Estimated payroll, environmental, and fiscal impacts.

Handout: **Maximizing the Benefit of Community Assets and Financial Incentive Programs**

Economic development strategies can lead to different outcomes. While all strategies eventually should lead to the creation of employment and increase wealth, the types of business that generate these outcomes may be very different.

Three types of business and economic development strategies are presented below:

1. Expansion of manufacturing companies: The strategy is to make existing firms (both state-owned and private companies) stronger and more profitable. Focus on existing firms that produce manufactured goods, such as automobile parts or computer hardware.

2. Growth of small and medium-sized commercial enterprises: The strategy is to stimulate the investment environment for enterprises that support large production firms. Businesses in this category may include marketing, printing, office and furniture design, or financial service companies.

3. New business start-ups: The strategy is to attract firms that use new technology for production. Firms in this category may include information services (e.g., credit card) companies or computer software firms.

Your group has been assigned one of the above business types. Based on the presentations you have heard, explain how you would use economic development tools to generate the results identified. Each group presentation should:

1. Consider the type of business (primary, secondary, and tertiary), the potential market, and the stage of the profit/product life cycle that the firm is in.

2. Decide how land could be used as an asset to achieve the objective for the group. (e.g., What would you have to do to increase the value or attractiveness of available land?)

3. Identify the financial incentive scheme that would be most attractive to firms or business investors to achieve the objective.

4. Explain the implementation costs of your strategy to the community.

5. List anticipated benefits of your strategy to the community.